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ACCOUNTING & AUDIT

Five Reasons Cannabis Organizations Should Outsource Their Accounting in 2023

Outsourcing accounting functions not only simplifies their financial responsibilities and allows them to focus on other business functions, but also strengthens compliance with tax and legal regulations.

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Photo credit: Isaac M. O'Bannon, CPA Practice Advisor.

By Kristin Kowalski., CPA, MST.

As the cannabis industry continues to evolve with expanding legalization, business operators are faced with unique challenges. Unlike other industries, cannabis business leaders must navigate an industry with exceptionally high tax rates and complex, ever-changing legal requirements. While proper accounting is essential to remaining compliant with industry regulations, those responsibilities should not fall to cannabis business leaders given the many essential tasks they must tend to daily to keep their businesses thriving.

Instead, operators should consider outsourcing their accounting functions. This not only simplifies the financial responsibilities assigned to operators and allows them to focus on other high-priority business functions, but also strengthens compliance with tax and legal regulations.

Here are the five major benefits of outsourcing accounting functions in the cannabis industry:

1. More time to focus on key business value drivers.

Outsourcing accounting frees up operators' time and helps to reduce stress associated with managing an organization's financial functions. Product, branding, and marketplace differentiation are all key valuation drivers that require time and attention from cannabis leaders. Working with a third-party accounting firm allows business leaders to focus on these important business functions. Outsourcing also helps ease worries and provide operators with comfort in knowing year-end tax preparation will go smoothly, and all accounting records will comply with Sec. 280E for income tax reporting.

2. Decreased employee cost.

As the tumultuous economy worsens and fears of a recession rise, the cost of running a successful business continues to climb. One of the primary contributors to the growing overhead businesses face is employee cost. This includes recruitment, training, compensation, and benefits. Hiring full-time accounting employees in today's competitive job market only serves to increase these costs. Instead, business leaders can obtain the bookkeeping support they need by outsourcing their accounting. Outsourced accounting services are less expensive and assign fixed fees for customized project services, meaning organizations only pay for what they need.

3. Increased regulatory compliance.

Cannabis is a highly regulated and ever-changing industry. To avoid consequences such as fines or license restrictions, cannabis organizations must strive to stay up to date and compliant with evolving regulations. This requires detailed and accurate bookkeeping. Outsourcing accounting services through a trusted accounting firm provides peace of mind that professionals with industry expertise are ensuring your organization is abiding by the proper financial processes and recordkeeping. Additionally, through involving a third-party, operators can add another layer of defense to strengthen controls over the financial function and ensure they always have the documentation available to meet the requirements of regulators, the IRS and potential investors/lenders.

4. Consistent support from experienced accounting professionals.

Outsourcing an organization's accounting functions helps to eliminate the time, expense, headache, and downtime of disruptive turnover. Instead, the burden of hiring is completely offloaded to a third-party accounting firm. Operators no longer need to worry about transitions or gaps in their accounting team. In addition, trusted accounting professionals with industry expertise are there to provide

consistent support and help operators ensure their books and records are correct the first time, preventing any future tax issues under audit.

5. Access to real-time tracking and metrics.

Through partnering with a third-party accounting firm, operators can gain access to customized solutions to track business performance. This includes solutions integrated with seed to sale management or point-of-sale (POS) systems. With real-time data and metrics, operators can know where their business stands at any given time, allowing for better decision making. This is vital in the cannabis industry due to high tax rates and helps business leaders to effectively plan for tax payments.

Unlike leaders in other industries, cannabis executives have many industry-specific concerns. Cannabis businesses operate in a unique and highly regulated industry. These complex rules often require extra resources to navigate. Working with a trusted outsourced accounting partner can help save cannabis business leaders time, money, and stress. Most importantly, outsourcing accounting can help eliminate any unintended consequences of attempting to manage your organization's financial functions internally.

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